A Report
to the
Montana
Legislature

Financial-Compliance Audit

Department of Natural Resources and Conservation

For the Two Fiscal Years Ended June 30, 2020

November 2020

Legislative Audit
Division

20-17

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Financial-Compliance Audits

Financial-compliance audits are conducted by the Legislative Audit Division to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States Government Accountability Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting and many staff members hold Certified Public Accountant (CPA) certificates.

The Single Audit Act Amendments of 1996 and the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards require the auditor to issue certain financial, internal control, and compliance reports in addition to those reports required by *Government Auditing Standards*. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 2019, was issued March 30, 2020. The Single Audit Report for the two fiscal years ended June 30, 2021, will be issued by March 31, 2022.

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LEGISLATIVE AUDIT DIVISION

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Cindy Jorgenson
William Soller

November 2020

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Department of Natural Resources and Conservation for the two fiscal years ended June 30, 2020. Included in this report are three recommendations related to segregation of duties in entering and approving transactions, controls over assets at the department, and controls over employee awards.

The department's written response to the audit recommendations is included in the audit report at page C-1. We thank the Director and his staff for their cooperation and assistance throughout the audit.

Respectfully submitted,

/s/ Angus Maciver

Angus Maciver
Legislative Auditor

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DEPARTMENT RESPONSE
Department of Natural Resources and Conservation C-1

Elected, Appointed, and Administrative Officials

Department of Natural Resources and Conservation	John E. Tubbs, Director
	Kerry Davant, Deputy Director
	Rex Renk, Chief of Staff
	Danna Jackson, Chief Legal Counsel
	Mark Bostrom, Administrator, Conservation and Resources Division
	Sonya Germann, Administrator, Forestry Division
	Jim Halvorson, Administrator, Oil and Gas Conservation Division
	Jan Langel, Administrator, Water Resources Division
	Shawn Thomas, Administrator, Trust Land Management Division
	Tricia Greiberis, Chief Financial Officer
State Board of Land Commissioners	Steve Bullock, Governor
	Tim Fox, Attorney General
	Matthew Rosendale, Commissioner of Securities and Insurance
	Corey Stapleton, Secretary of State
	Elsie Arntzen, Superintendent of Public Instruction
	Shauna Simpson, Land Board Secretary
Boards, Commissions & Committees	Board of Oil and Gas Conservation Commission Board of Water Well Contractors Flathead Basin Commission Montana Grass Conservation Commission Montana Invasive Species Council Montana Sage Grouse Oversight Team Resource Conservation Advisory Council Rangeland Resources Committee Drought Advisory Committee and Associated Watershed Advisory Councils Forest Stewardship Steering Committee Montana Forest Advisory Committee Montana Urban and Community Forestry Association Upper Columbia Conservation Commission

For additional information concerning the Department of Natural Resources and Conservation, contact:

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Montana Legislative Audit Division

Department of Natural Resources and Conservation

For the Two Fiscal Years Ended June 30, 2020

Background

The Department of Natural Resources and Conservation's (department) mission is to help ensure that Montana's land and water resources provide benefits for present and future generations.

The State Board of Land Commissioners, comprised of the Governor, Commissioner of Securities and Insurance, Attorney General, Superintendent of Public Instruction, and Secretary of State exercise the general authority, direction, and control over state lands.

The department has five divisions. These include the Director's Office, Oil and Gas Conservation Division, Conservation and Resource Development Division, Water Resources Division, and Forestry/Trust Land Management Divisions.

The department manages Montana's trust lands for the benefit of schools, universities, and certain state agencies. The department also manages the financing of the State Revolving Fund programs.

Director: John Tubbs

In fiscal year 2020 the Department of Natural Resources and Conservation received approximately $16.6 million from federal agencies to reimburse firefighting costs from previous years. At June 30, 2020, the department had approximately $23.9 million in accounts receivable from federal agencies still outstanding, related to fires from 2012 to present. The State Special Revenue Fund's Fire Suppression account had a fund equity of approximately $54.6 million at June 30, 2020, available to fund future fires.

This report contains three recommendations to the department identifying areas where internal controls can be enhanced. The three recommendations relate to segregation of duties in entering and approving transactions, controls over assets at the department, and controls over employee awards.

AUDITOR'S OPINION (page A-1) – UNMODIFIED:
We found the department's financial statements and note disclosures presented fairly the activity of the department in all material respects and issued an unmodified opinion. This means a reader can rely on the information presented and the underlying financial records.

For the full context of the department's financial activity, see the financial schedules and notes beginning on page A-4.

RECOMMENDATIONS:
In this report, we issued the following recommendations:
To the department: 3
To the legislature: 0

In this report, we determined the implementation status of recommendations in the prior audit:
Fully Implemented: 3
Partially Implemented: 2
Not Implemented: 0

(continued on back)

For the full report or more information, contact the Legislative Audit Division.

leg.mt.gov/lad

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The mission of the Legislative Audit Division is to increase public trust in state government by reporting timely and accurate information about agency operations, technology, and finances to the Legislature and the citizens of Montana.

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Recommendation #1 (page 6):
Internal Controls
The department needs to segregate accounting duties related to the approval and review of all accounting transactions. Similar segregation of duty findings were included in the prior two audit reports for this agency.

Department response: **Concur**

Recommendation #2 (page 8):
Internal Controls
The department needs to implement internal controls to ensure all high-risk portable assets are tagged, tracked and inventoried as required by state accounting policy.

Department response: **Concur**

Recommendation #3 (page 10):
Internal Controls
The department needs to continue to develop and implement controls over employee awards so all awards are taxed and properly accounted for.

Department response: **Concur**

REPORT ON INTERNAL CONTROL AND COMPLIANCE (page B-1):
In this report, we identified the following:
Material Weaknesses in Internal Control: 1
Significant Deficiencies in Internal Control: 1
Material Non-Compliance: 0
Other Matters: 0

For the full context of this information, including the distinction between the types of items reported, see the report beginning on page B-1.

Chapter I – Introduction and Background

Introduction

We performed a financial-compliance audit of the Department of Natural Resources and Conservation (department) for the two fiscal years ended June 30, 2020.

The objectives of this audit were to:

1. Determine whether the department complied with selected state laws and regulations.
2. Obtain an understanding of the department's internal controls to the extent necessary to support our audit of the department's financial schedules, and if appropriate, make recommendations for improvement in management and internal controls of the department.
3. Determine whether the department's financial schedules present fairly the results of operations and changes in fund equity for fiscal year 2020 and changes in fund equity and property held in trust in fiscal year 2019.
4. Determine the status of prior audit recommendations.

During the audit we focused on personal services expenses, land grant revenues, transfers-in and transfers-out in the land grant trusts, activity in the State Revolving Fund programs, transfers and account balances in the fire fund, and other services expenditures. Other services activity includes items like consulting and professional services, accrued fire suppression services, and contracted services for moving fire equipment. We reviewed the overall reasonableness of the financial schedules and notes and we considered the department's control systems throughout the audit. Additionally, we evaluated compliance with selected laws and regulations.

Internal Service Fund

We evaluated fees and charges for services in the Internal Service Fund as required by §17-8-101(6), MCA. The Internal Service Fund accounts for the financing of goods or services provided by one department to other departments of state government or to other governmental entities on a cost-reimbursed basis. The department's Internal Service Fund contains the Forestry Division's Air Operations Program. The Air Operations Program maintains and operates aircraft to aid in fire suppression. During years with large fire seasons the Internal Service Fund receives revenue in excess of expenditures, creating working capital that is spent in the following years to perform maintenance on the department-owned air crafts. State accounting policy defines working capital as the amount of cash that would remain if all the current assets were converted, and all the current liabilities paid, at their book value. To determine if fees are commensurate with cost we analyzed whether working capital exceeded the

60-day limit specified in state accounting policy and considered whether revenues exceeded expenditures. Revenue did exceed expenditures in fiscal year 2020, but not in fiscal year 2019. Additionally, working capital exceeded the 60-day limit in both fiscal years 2019 and 2020. As a result, the fees are not commensurate with costs for fiscal years 2019 or 2020. Additionally, since there is excess working capital, fund equity is not reasonable. The department has plans to spend the excess working capital on maintenance costs, and we observed a decrease in the amount of excess working capital from fiscal year 2019 to fiscal year 2020. We make no recommendation to the department at this time as they are actively spending, and have plans to spend the remaining, excess working capital.

Background Information

The department's mission is to help ensure that Montana's land and water resources provide benefits for present and future generations.

Department Organization

The State Board of Land Commissioners, comprised of the Governor, Commissioner of Securities and Insurance, Attorney General, Superintendent of Public Instruction, and Secretary of State exercises the general authority, direction, and control over the care, management, and disposition of state lands under its administration. The department's director is the chief administrative officer of the board.

The following describes the departments five divisions, including the number of budgeted full-time equivalent (FTE) positions. The Schedule of Expenditures, on page A-8, lists six divisions, as it shows the Trust Lands Management program separately.

Director's Office (59.00 FTE) administers, manages, plans, and evaluates agency functions in the areas of fiscal operations, human resources, information technology, and public information, under the guidance of the director. The Director's Office includes the director's staff, Financial Services, Public Information, Legal Unit, Human Resources, and Information Technology. In fiscal year 2021, the Director's Office also includes an Office of Administrative Hearing.

Oil and Gas Conservation Division (19.50 FTE) administers the Montana oil and gas conservation laws. It promotes conservation and prevents waste in the recovery of oil and gas resources through regulation of exploration and production. The division issues drilling permits; classifies wells; establishes well spacing units and pooling orders; inspects drilling, production, and seismic operations; investigates complaints; and performs engineering studies. To implement the tax incentive program the division

determines incremental production for enhanced recovery and horizontal wells. The division also operates the underground injection control program, plugs orphan wells, and collects and maintains complete well data and production information. The division provides administrative support to the Board of Oil and Gas Conservation.

Conservation and Resource Development Division (34.18 FTE) assists local entities in managing the state's natural resources and provides financing for conservation resource management and reclamation activities. The division is made up of three bureaus. The Conservation Districts Bureau provides technical, administrative, financial, and legal assistance to Montana's 58 conservation districts. The Financial Bureau issues loans for local communities, local governments, state agencies, and private citizens. The programs include State Revolving Fund loans to communities for drinking water and waste water systems and Coal Severance Tax loans to governmental entities. Loans outstanding exceed $503 million at June 30, 2020. Grant programs administered by the Resource Development Bureau include the Reclamation and Development Grant Program and the Renewable Resource Grant Program.

Water Resources Division (132.26 FTE) is responsible for programs associated with the use, development, and protection of Montana's water. It manages and maintains state-owned dams, reservoirs and canals. The division develops and recommends intrastate, interstate, and international water policy to the director, governor, and legislature. They released an updated "Montana State Water Plan" in 2015. The division also resolves water resources use conflicts, investigates water use violations, ensures dam safety compliance, and provides water adjudication support to the Water Court. The division consists of an administration unit and five bureaus: Water Adjudication Bureau, Water Management Bureau, Water Rights Bureau, Water Projects Bureau, and Water Operations Bureau.

Forestry/Trust Land Management Division (315.33 FTE) manages the forest resources of the state and state lands held in trust to provide income for various state educational facilities and institutions. The department fulfills these responsibilities in two administrative units.

- **Forestry** is responsible for planning and implementing forestry programs statewide. The division protects Montana's natural resources from wildfire, regulates forest practices, and provides a variety of services to private forest landowners. The Fire Protection Bureau protects 50 million acres of state and private forest and watershed lands from wildfire through a combination of direct protection and county support.

  The Forestry Assistance Bureau enforces Montana's streamside management zone regulations and monitors the voluntary Best Management Practices on all forests in Montana. In administering Montana's Fire Hazard Reduction Law, the division helps ensure fire hazards created by logging and other

forest management operations on private forestlands are adequately reduced, or that additional fire protection is provided until the hazard is reduced. The division provides technical forestry assistance to private landowners, businesses, and communities.

- Trust Land Management provides for the administration and management of trust lands granted, in part, to the state of Montana by the Enabling Act of 1889. In the process of producing revenue for trust beneficiaries, the division is responsible for the administration of approximately 3,600 miles of the beds of navigable waterways. The Trust Land Management Division is divided into four primary programs: forest management, agriculture and grazing management, real estate management, and minerals management.

Prior Audit Recommendations

The prior audit report contained five recommendations. We consider three of the recommendations fully implemented. These relate to internal controls over land grant accounting entries, temporarily increasing pro card limits, and compliance with state law for fundraising revenue for the Flathead Basin Commission.

We consider the recommendation related to employee awards to be partially implemented. The department implemented a review process and sent reminders about department policy during the audit period, but department policy was not consistently followed. Recommendation #3 on page 8 discusses this in further detail.

The recommendation related to segregating accounting duties for transactions to classify assets in the State Revolving Fund and Blackfeet Mitigation Funds is partially implemented. A second staff member reviewed these transactions as part of training new staff for a portion of fiscal year 2020, but the department does not plan to continue this review. Additionally, we found other instances where segregation of duties between entering and approving accounting transactions was not present. This is discussed further in Recommendation #1 on page 5.

Chapter II – Findings and Recommendations

Segregation of Duties

Certain accounting transactions are entered and approved by the same staff member which could result in misstatements in the accounting records.

All transactions for the Department of Natural Resources and Conservation (department) are recorded centrally in the financial services office, including those transactions initiated by other areas and divisions within the department. The department has procedures in place to make sure that all transactions where cash is received or disbursed are recorded by one financial services staff member and approved by a second one. However, for other transactions this segregation of duties is not present.

State accounting policy requires segregation of duties as part of establishing internal controls. If segregation of duties is not present, misstatements in recorded transactions will not be identified and corrected by the department. State accounting policy also requires state agencies develop internal controls over financial transactions and processes, including ensuring proper segregation of duties. This should include separating the authorization of transactions, the recording of transactions, custody of assets, and reconciliation of recorded balances. The department should make sure that transactions are entered and approved by different staff members.

We identified the following instances where there was no segregation of duties during the audit period. There could be other types of transactions we did not identify that are entered and approved by the same staff member.

- The yearly entry to record future amounts to be received from the federal government for fire suppression activities. The amount recorded in fiscal years 2019 and 2020 was approximately $10 million in each year.
- The recording of State Revolving Fund and Blackfoot Mitigation Account transactions including monthly and yearly entries. Loans outstanding were approximately $461 million and $472 million in fiscal years 2019 and 2020, respectively.

The past two financial-compliance audits have identified instances where certain transactions were recorded and approved by the same staff member. In some of those cases, the past audits also identified misstatements in the accounting records as a result. In the prior audits the identified instances were reported as separate recommendations, and some of them were classified as material weaknesses in internal control. During the current audit period, the department made some changes to ensure that some

transactions that previously were entered and approved by the same staff member are now entered and reviewed by different staff members. However, in some cases this change is only temporary as the staff member entering the transaction is new and their transactions will only be reviewed until they learn their job duties. During the current audit we also identified additional types of transactions, including the entry to record future amounts to be received for fire suppression activities, that are being entered and approved by the same staff member.

If transactions are entered and approved by the same staff member there is an increased chance that a misstatement would occur and not be detected and corrected by the department. Since many of these transactions do not occur regularly and are for significant dollar amounts this could result in a material misstatement in the agency's accounting records, the agency-issued State Revolving Fund program financial statements, and the state's Comprehensive Annual Financial Report. As a result, we consider this to be a material weakness in internal control as described further on page B-2.

Department staff indicated they segregate duties for recording transactions where cash is received or disbursed, and that they have limited staff and budget resources within the central financial services office, so it is not feasible to segregate duties for all transactions. Despite these limitations, segregation of duties for all transactions is a critical part of strong internal controls. There are times when segregating duties may not be possible, either due to limited resources, or efficiencies in operations. In those cases, alternative controls need to be developed to ensure the accuracy and completeness of the accounting records. For example, the department could cross train staff so that there are more staff available to review transactions and ensure segregation of duties is present. Additionally, if the department is not able to cross train staff they could implement other controls that would allow them to detect and correct, in a timely manner, misstatements resulting from the lack of segregation of duties. This could include, but is not limited to, a regular review of accounting system reports to ensure activity was recorded as expected or reviewing a random selection of transactions periodically to check for errors.

RECOMMENDATION #1

We recommend the Department of Natural Resources and Conservation:

A. *Segregate accounting duties related to the approval and review of all accounting transactions, or*

B. *Develop other internal controls to identify and correct misstatements in cases where segregating accounting duties is not possible.*

Controls Over Assets

The department's controls over high risk portable items need improved so that all assets are tracked and inventoried as required by state accounting policy.

The department uses a variety of equipment to perform their functions. These assets are often handheld and portable to assist work in the field, but because they are small, they are prone to theft or misuse. State accounting policy defines these small assets that are portable and at a high risk of loss or theft as sensitive assets. While these sensitive assets are used throughout the department, the financial services office is responsible for recording the assets on the state's accounting system, and either the financial services office or the Office of Information Technology (OIT) is responsible for tracking, tagging, and inventorying the assets.

Some of these sensitive assets, such as chain saws, GPS units, and digital cameras, are required to be tagged and tracked in the state's accounting system if their cost exceeds $5,000. Other less costly assets sensitive to theft are also required to be tagged and tracked either in the state's accounting system or in alternative tracking systems managed by the department. During our audit, we identified some sensitive assets that could not be located and some that do not contain all tracking information required by state policy. We also determined a physical inventory is not occurring for all assets.

State accounting policy requires state agencies develop internal controls to ensure assets are safeguarded and to ensure compliance with applicable laws, regulations, and policies. State accounting policy also requires capital assets and sensitive assets prone to theft to be tracked and inventoried. The assets must be tagged with a unique identification number that contains "State of Montana" and list the responsible agency. A complete physical inventory that includes sensitive assets must be completed at a minimum every two years.

The department currently has over 3,000 active assets. As part of our work, we reviewed a selection of 20 assets. Of the 20 assets reviewed, 5 were not in compliance with state accounting policy. This included 2 assets managed by OIT and 3 assets managed by the central financial services office.

The assets managed by financial services included a GPS unit costing approximately $400 that could not be located and two items, a drone and a GPS unit, costing approximately $1,500 that did not include tracking information required by state accounting policy. Department staff indicate some of these assets were old and turnover in staff has resulted in different policies and procedures in managing assets. However,

the control procedures in place should be set up to allow for changes in staff, while still meeting all requirements in state accounting policy.

The assets managed by OIT included one laptop costing approximately $500 that could not be located and one laptop costing $1,000 that did not contain the required identification number. These types of assets are tracked by OIT for software management and service purposes and are identified through the manufacturer provided serial numbers. Additionally, the OIT does not conduct a physical inventory of sensitive items or tag high risk portable assets prone to theft. Department personnel stated that this was due to not understanding the requirements in state accounting policy. Part of developing internal controls is understanding the requirements in state policy, and periodically reviewing controls and policy to make sure internal controls are operating as intended and that any changes in policy are incorporated into controls.

As we identified above, the department was unable to locate a GPS unit and a laptop. If controls over assets are not in place, the asset may not be able to be identified or located for use, as they do not contain a tag, and are not adequately tracked. Assets could also be misplaced or stolen and not identified in a timely manner. Due to the potential for theft, as well as the significant number of assets the department could not locate, or was not tagged in accordance with policy, we consider this to be a significant deficiency in internal control as described further on page B-2.

RECOMMENDATION #2

We recommend the Department of Natural Resources and Conservation comply with state accounting policy by implementing internal controls over all sensitive assets to ensure all sensitive assets are tagged, tracked, and inventoried as required by state accounting policy.

Employee Awards

Improvements continue to be needed in controls over employee awards.

Department policy allows for a variety of annual awards for employee recognition purposes. Awards are based upon the recommendation of the appropriate supervisors and can be an agency, or bureau specific, award. Each bureau in the department is responsible for procuring the award and making sure department policy is followed. The department spent approximately $12,800 in fiscal year 2019 and $9,000 in fiscal year 2020 on annual awards for employees.

State accounting policy requires state agencies develop internal controls to ensure assets are safeguarded and comply with applicable laws, regulations, and policies. This includes developing processes to ensure that internal policies at the department are being complied with, as appropriate. The awards are primarily in the form of gift cards. Gift cards have value to anyone possessing them and without documentation to confirm the intended recipient received the awards, the department is at risk of awards being stolen or misused. Some of the awards are not accepted by the employee, and are returned to the department. In those cases, there is no policy in place to track the returned awards to ensure they are not stolen or misused.

Our past two audit reports included recommendations related to the department's controls over employee awards. In response, the department has developed controls over employee awards, including requiring the employee receiving the award to sign a form acknowledging its receipt. The signed form is given to payroll to be included on the employee's pay as taxable income to the employee as required by the IRS. However, we found that this form was not being filled out for all awards during our prior audit.

During the current audit period, the department sent out repeated reminders to all staff about the department's policy for employee awards. To ensure all awards are taxed, department financial staff also started a high-level review of employee awards to determine if the required form was filled out and if the award was taxed. The review is not yet complete, but their preliminary work indicated the department's policy was not being consistently followed. No follow-up work from the high-level review had been performed by the department at the time of our audit. If department staff continue to perform similar, timely reviews, in future years it would allow the department to identify where policy is not being followed and corrective action can be taken. Department staff need to take corrective action if instances are identified where policy is not followed. Additionally, the department should enhance controls to ensure that policy is followed when awards are initially awarded, such as not giving the award to the employee until the required paperwork is filled out and submitted, and tracking all gift cards to ensure they are being properly used, including ensuring all gift cards not accepted by the employee are tracked and accounted for, to prevent misuse and theft. Other than sending out department policy, no controls were implemented to prevent the misuse or theft of employee awards during the audit period.

RECOMMENDATION #3

We recommend the Department of Natural Resources and Conservation implement controls to prevent theft or misuse of employee awards and ensure all employee awards are taxed in accordance with law.

Independent Auditor's Report and Department Financial Schedules

Angus Maciver, Legislative Auditor
Deborah F. Butler, Legal Counsel

Deputy Legislative Auditors:
Cindy Jorgenson
William Soller

Independent Auditor's Report

The Legislative Audit Committee
of the Montana State Legislature:

Introduction

We have audited the accompanying Schedule of Changes in Fund Equity, Schedule of Total Revenues & Transfers-In, and Schedule of Total Expenditures & Transfers-Out for the fiscal year ended June 30, 2020, and the Schedule of Changes in Fund Equity & Property Held in Trust, Schedule of Total Revenues & Transfers-In, and Schedule of Total Expenditures & Transfers-Out for the fiscal year ended June 30, 2019, for the Department of Natural Resources and Conservation, and the related notes to the financial schedules.

Management's Responsibility for the Financial Schedules

Management is responsible for the preparation and fair presentation of these financial schedules in accordance with the regulatory format prescribed by the Legislative Audit Committee, based on the transactions posted to the state's accounting system without adjustment; this responsibility includes recording transactions in accordance with state accounting policy; and designing, implementing, and maintaining internal controls relevant to the preparation and fair presentation of the financial schedules that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial schedules based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial schedules. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial schedules, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the department's preparation and fair presentation of the financial schedules in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the

effectiveness of the department's internal control, and accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as the overall presentation of the financial schedules.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Adverse Opinions on U.S. Generally Accepted Accounting Principles

As described in Note 1, the financial schedules are prepared from the transactions posted to the state's primary accounting system without adjustment, in the regulatory format prescribed by the Legislative Audit Committee. This is a basis of accounting other than accounting principles generally accepted in the United States of America. The financial schedules are not intended to, and do not, report assets, deferred outflows of resources, liabilities, deferred inflows of resources, and cash flows.

The effects on the financial schedules of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinions on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinions on U.S. Generally Accepted Accounting Principles" paragraph, the financial schedules referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the department as of June 30, 2020, and June 30, 2019, or changes in financial position or cash flows for the years then ended.

Unmodified Opinions on Regulatory Basis of Accounting

In our opinion, the Schedule of Changes in Fund Equity, Schedule of Total Revenues & Transfers-In, and Schedule of Total Expenditures & Transfers-Out for the fiscal year ended June 30, 2020, and the Schedule of Changes in Fund Equity & Property Held In Trust, Schedule of Total Revenues & Transfers-In, and Schedule of Total Expenditures & Transfers-Out for the fiscal year ended June 30, 2019, present fairly, in all material respects, the results of operations and changes in fund equity and property held in trust of the Department of Natural Resources and Conservation, in conformity with the basis of accounting described in Note 1.

Emphasis of Matter

As discussed in Note 1 – Basis of Presentation, the financial schedule format was adopted by the Legislative Audit Committee. On June 16, 2020, the Committee approved a change in format to remove the presentation of revenue estimates from the Schedule of Total Revenues & Transfers-In. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 16, 2020, on our consideration of the department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the department's internal control over financial reporting and compliance.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

October 16, 2020

DEPARTMENT OF NATURAL RESOURCES AND CONSERVATION
SCHEDULE OF CHANGES IN FUND EQUITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Enterprise Fund	Internal Service Fund	Private Purpose Trust Fund	Permanent Fund
FUND EQUITY: July 1, 2019	$ (7,128,874)	$ 610,827,130	$ (34,435,760)	$ 33,880,288	$ 0	$ (34,572)	$ (910,213)	$ 1,160,378	$ 775,697,756
ADDITIONS									
Budgeted Revenues & Transfers-In	173,157	194,798,466	35,662,517			572,300	2,217,153		
Nonbudgeted Revenues & Transfers-In	50,041	48,701,023	3,131	23,474,667					197,324,840
Prior Year Revenues & Transfers-In Adjustments	1	(10,091)	30,906	(430)		375			(1,704)
Direct Entries to Fund Equity	28,549,734	(32,773,101)	658,111	465,602	464,211	26,581	88,661	(1,160,378)	
Total Additions	28,772,934	210,716,297	36,354,665	23,939,839	464,211	599,256	2,305,814	(1,160,378)	197,323,135
REDUCTIONS									
Budgeted Expenditures & Transfers-Out	29,658,415	55,438,631	28,214,550		464,211	498,394	2,162,638		
Nonbudgeted Expenditures & Transfers-Out	5,037	107,946,738	(3,428,275)	27,598,350		5,150	(87,024)		125,526,229
Prior Year Expenditures & Transfers-Out Adjustments	(54,199)	1,262,974	73,589	(9,862)		(33)			
Total Reductions	29,609,253	164,648,344	24,859,864	27,588,488	464,211	503,511	2,075,614	0	125,526,229
FUND EQUITY: June 30, 2020	$ (7,965,194)	$ 656,895,082	$ (22,940,959)	$ 30,231,640	$ 0	$ 61,173	$ (680,013)	$ 0	$ 847,494,662

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

DEPARTMENT OF NATURAL RESOURCES AND CONSERVATION
SCHEDULE OF CHANGES IN FUND EQUITY & PROPERTY HELD IN TRUST
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Debt Service Fund	Enterprise Fund	Internal Service Fund	Agency Fund	Private Purpose Trust Fund	Permanent Fund
FUND EQUITY: July 1, 2018	$ (5,667,437)	$ 557,564,820	$ (34,556,093)	$ 34,106,207	$ (22,930)	$ (310,545)	$ 0	$ 1,013,208	$ 709,639,401
PROPERTY HELD IN TRUST: July 1, 2018							$ 4,866,210		
ADDITIONS									
Budgeted Revenues & Transfers-In	180,214	253,127,658	21,277,952		494,220	2,296,087			
Nonbudgeted Revenues & Transfers-In	34,040	44,353,081	1,125	19,446,846				600,600	195,012,798
Prior Year Revenues & Transfers-In Adjustments	9,750	(2,482)	89,711	(217)	8	(2,524)			(661)
Direct Entries to Fund Equity	25,080,646	(34,952,220)	357,493	579,204	(3,826)	(19,261)			
Additions to Property Held in Trust							3,418,293		
Total Additions	25,304,649	262,526,037	21,726,281	20,025,833	490,401	2,274,302	3,418,293	600,600	195,012,137
REDUCTIONS									
Budgeted Expenditures & Transfers-Out	26,766,862	56,770,721	25,914,611		494,131	2,550,280			
Nonbudgeted Expenditures & Transfers-Out	11,333	150,768,755	(4,394,027)	20,342,883	7,952	323,013		453,429	128,954,498
Prior Year Expenditures & Transfers-Out Adjustments	(12,109)	1,724,252	85,364	(91,132)	(39)	676			(716)
Reductions in Property Held in Trust							3,990,196		
Total Reductions	26,766,087	209,263,727	21,605,948	20,251,752	502,044	2,873,970	3,990,196	453,429	128,953,783
FUND EQUITY: June 30, 2019	$ (7,128,874)	$ 610,827,130	$ (34,435,760)	$ 33,880,288	$ (34,572)	$ (910,213)	$ 0	$ 1,160,378	$ 775,697,756
PROPERTY HELD IN TRUST: June 30, 2019							$ 4,294,307		

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

DEPARTMENT OF NATURAL RESOURCES AND CONSERVATION
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Debt Service Fund	Enterprise Fund	Internal Service Fund	Permanent Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS								
Licenses and Permits		$ 261,175					$ 1,718,237	$ 1,979,412
Taxes		3,686,349	$ 1,174					3,687,523
Charges for Services	$ 89,711	2,541,557		$ 3,161		$ 552,501		3,186,930
Investment Earnings	3	4,644,369		11,423,647			59,879,405	75,947,424
Fines and Forfeits	38,740	45,660						84,400
Sale of Documents, Merchandise and Property		6,974,275			$ 572,675		9,936,821	17,483,770
Rentals, Leases and Royalties	7,742	118,623					54,825,754	54,952,119
Contributions and Premiums		315,312						315,312
Grants, Contracts, and Donations		16,066,922					904	16,067,826
Transfers-in		238,767,911	761,439	12,047,429		1,664,652	59,941,074	313,182,506
Capital Asset Sale Proceeds	61,634	28,738					11,020,940	11,111,311
Inception of Lease/Installment Contract	22,119	31,998	1,957					56,074
Federal Indirect Cost Recoveries			1,333,444					1,333,444
Miscellaneous	3,251	(29,993,492)						(29,990,241)
Federal			33,598,540					33,598,540
Total Revenues & Transfers-In	223,200	243,489,397	35,696,554	23,474,238	572,675	2,217,153	197,323,135	502,996,352
Less: Nonbudgeted Revenues & Transfers-In	50,041	48,701,023	3,131	23,474,667			197,324,840	269,553,701
Prior Year Revenues & Transfers-In Adjustments	1	(10,091)	30,906	(430)	375		(1,704)	19,058
Actual Budgeted Revenues & Transfers-In	$ 173,157	$ 194,798,466	$ 35,662,517	$ 0	$ 572,300	$ 2,217,153	$ 0	$ 233,423,593

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

DEPARTMENT OF NATURAL RESOURCES AND CONSERVATION
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Debt Service Fund	Enterprise Fund	Internal Service Fund	Private Purpose Trust Fund	Permanent Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS									
Licenses and Permits	$ 13,823	$ 262,173						$ 1,844,314	$ 2,120,311
Taxes		3,921,108	$ 1,125						3,922,233
Charges for Services	21,575	3,789,201				$ 628,912			4,439,687
Investment Earnings	133	4,916,639		$ 11,179,545				56,797,614	72,893,931
Fines and Forfeits	111,423	92,972							204,395
Capital Contributions	11,289								11,289
Sale of Documents, Merchandise and Property		4,954,518			$ 494,228			11,717,291	17,166,037
Rentals, Leases and Royalties	7,646	160,120						59,125,688	59,293,455
Contributions and Premiums		304,683							304,683
Grants, Contracts, and Donations		725,290					$ 600,600	258	1,326,148
Transfers-in		247,490,619	79,396	8,267,084		1,664,652		58,532,957	316,034,707
Capital Asset Sale Proceeds	54,889	45,294	45,650					6,975,977	7,121,809
Federal Indirect Cost Recoveries			1,131,592						1,131,592
Miscellaneous	3,225	30,815,640	57,385					18,038	30,894,288
Federal			20,053,640						20,053,640
Total Revenues & Transfers-In	224,003	297,478,257	21,368,788	19,446,629	494,228	2,293,564	600,600	195,012,137	536,918,205
Less: Nonbudgeted Revenues & Transfers-In	34,040	44,353,081	1,125	19,446,846			600,600	195,012,798	259,448,489
Prior Year Revenues & Transfers-In Adjustments	9,750	(2,482)	89,711	(217)	8	(2,524)		(661)	93,585
Actual Budgeted Revenues & Transfers-In	$ 180,214	$ 253,127,658	$ 21,277,952	$ 0	$ 494,220	$ 2,296,087	$ 0	$ 0	277,376,131

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

DEPARTMENT OF NATURAL RESOURCES AND CONSERVATION
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	Conservation & Resource Development Division	Director's Office	Forestry & Trust Lands	Oil & Gas Conservation Division	Trust Funds	Water Resources Division	Total
Personal Services							
Salaries	$ 2,047,224	$ 3,773,697	$ 16,197,368	$ 989,921		$ 7,852,028	$ 30,860,237
Hourly Wages			4,349,359				4,349,359
Other Compensation	400			4,750		100	5,250
Employee Benefits	774,547	1,344,622	7,477,605	379,566		3,034,058	13,010,399
Personal Services-Other			(19,803)				(19,803)
Total	2,822,171	5,118,319	28,004,530	1,374,236		10,886,186	48,205,442
Operating Expenses							
Other Services	1,826,356	755,684	18,310,092	353,506		11,243,771	32,489,410
Supplies & Materials	115,988	504,505	2,583,465	63,090		(199,745)	3,067,302
Communications	75,424	237,993	652,117	45,576		229,643	1,240,753
Travel	94,496	38,623	825,672	18,825		85,903	1,063,519
Rent	271,562	453,535	2,482,341	26,623		790,600	4,024,662
Utilities	16		258,647	16,591		51,780	327,034
Repair & Maintenance	8,649	3,140	855,040	35,890		313,835	1,216,554
Other Expenses	162,608	80,084	768,344	46,937		1,461,167	2,519,140
Total	2,555,100	2,073,564	26,735,717	607,040		13,976,954	45,948,374
Equipment & Intangible Assets							
Equipment	69,812	192,784	2,126,277	1,643		1,315,875	3,706,391
Total	69,812	192,784	2,126,277	1,643		1,315,875	3,706,391
Capital Outlay							
Land & Interest In Land			43,917			644,453	688,370
Total			43,917			644,453	688,370
Local Assistance							
Total							
Grants							
From State Sources	7,294,578		202,500				7,497,078
From Federal Sources	40,806	395,836	2,732,218				3,168,860
Total	7,335,384	395,836	2,934,718				10,665,938
Benefits & Claims							
Other Financing Uses/Deduction	3,430,232						3,430,232
Total	3,430,232						3,430,232
Transfers-out							
Fund transfers	109,933,611		2,047,824		$ 121,332,414	14,017,331	247,331,181
Intra-Entity Expense			33,790		4,351,562		4,385,352
Total	109,933,611		2,081,614		125,683,976	14,017,331	251,716,532
Debt Service							
Bonds	9,969,448						9,969,448
Loans	229,645					541,150	770,794
Capital Leases	730	3,346	16,685			8,069	28,829
Total	10,199,823	3,346	16,685			549,218	10,769,071
Post Employment Benefits							
Other Post Employment Benefits			4,221				4,221
Employer Pension Expense			140,944				140,944
Total			145,165				145,165
Total Expenditures & Transfers-Out	$ 136,346,132	$ 7,783,848	$ 62,088,622	$ 1,982,919	$ 125,683,976	$ 41,390,017	$ 375,275,515
EXPENDITURES & TRANSFERS-OUT BY FUND							
General Fund	$ 1,667,868	$ 3,659,609	$ 14,487,169			$ 9,794,608	$ 29,609,253
State Special Revenue Fund	106,551,235	2,763,273	32,263,337	$ 1,795,669	$ 182,963	21,091,868	164,648,344
Federal Special Revenue Fund	513,326	1,360,967	12,758,991	187,250		10,039,331	24,859,864
Debt Service Fund	27,588,488						27,588,488
Capital Projects Fund						464,211	464,211
Enterprise Fund			503,511				503,511
Internal Service Fund			2,075,614				2,075,614
Permanent Fund	25,215				125,501,013		125,526,229
Total Expenditures & Transfers-Out	136,346,132	7,783,848	62,088,622	1,982,919	125,683,976	41,390,017	375,275,515
Less: Nonbudgeted Expenditures & Transfers-Out	117,437,372	7,421	66,029	(317)	125,683,976	14,371,724	257,566,205
Prior Year Expenditures & Transfers-Out Adjustments	(234,538)	(2,449)	1,514,818	729		(6,091)	1,272,469
Actual Budgeted Expenditures & Transfers-Out	19,143,298	7,778,876	60,507,775	1,982,507	0	27,024,384	116,436,840
Budget Authority	152,423,589	18,196,424	77,787,463	2,625,405		46,373,848	297,406,730
Unspent Budget Authority	$ 133,280,291	$ 10,417,548	$ 17,279,689	$ 642,898	$ 0	$ 19,349,464	$ 180,969,890
UNSPENT BUDGET AUTHORITY BY FUND							
General Fund	$ 153	$ 769,070	$ 49,817			$ 701,704	$ 1,520,744
State Special Revenue Fund	104,205,292	44,314	4,517,255	$ 616,148		9,125,850	118,508,858
Federal Special Revenue Fund	9,574,847	9,604,164	11,813,297	26,750		9,521,071	40,540,129
Capital Projects Fund	19,500,000					839	19,500,839
Enterprise Fund			325,833				325,833
Internal Service Fund			573,487		$		573,487
Unspent Budget Authority	$ 133,280,291	$ 10,417,548	$ 17,279,689	$ 642,898	$ 0	$ 19,349,464	$ 180,969,890

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

DEPARTMENT OF NATURAL RESOURCES AND CONSERVATION
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	Conservation & Resource Development Division	Director's Office	Forestry & Trust Lands	Oil & Gas Conservation Division	Trust Funds	Water Resources Division	Total
Personal Services							
Salaries	$ 1,797,871	$ 3,317,391	$ 15,251,101	$ 962,823		$ 7,059,326	$ 28,388,512
Hourly Wages			4,929,016				4,929,016
Other Compensation	375		69	5,300		250	5,994
Employee Benefits	688,424	1,226,846	7,443,309	379,239		2,976,881	12,714,698
Personal Services-Other			6,626				6,626
Total	2,486,670	4,544,237	27,630,120	1,347,362		10,036,457	46,044,845
Operating Expenses							
Other Services	7,304,524	342,003	9,890,527	549,194		9,637,266	27,723,514
Supplies & Materials	80,430	452,194	2,651,814	52,605		291,275	3,528,318
Communications	81,465	199,689	719,109	66,130		260,642	1,327,034
Travel	115,086	26,710	976,599	29,967		100,913	1,249,275
Rent	239,603	451,234	4,366,156	23,871		746,982	5,827,845
Utilities			227,649	15,921		21,821	265,391
Repair & Maintenance	12,302	8,710	1,260,197	30,544		51,827	1,363,580
Other Expenses	178,649	82,815	818,492	38,373		1,044,442	2,162,770
Total	8,012,059	1,563,354	20,910,541	806,604		12,155,169	43,447,727
Equipment & Intangible Assets							
Equipment	41,890		2,040,968	67,009		45,147	2,195,014
Intangible Assets	169,294	50,962	5,600				225,856
Total	211,184	50,962	2,046,568	67,009		45,147	2,420,870
Capital Outlay							
Land & Interest In Land			3,913		$ 1,722,464	865,176	2,591,553
Total			3,913		1,722,464	865,176	2,591,553
Local Assistance							
Total							
Grants							
From State Sources	10,391,959		95,115				10,487,075
From Federal Sources	48,493		2,773,876				2,822,369
Total	10,440,452		2,868,992				13,309,444
Benefits & Claims							
From Other Sources			453,429				453,429
Other Financing Uses/Deduction	4,394,027						4,394,027
Total	4,394,027		453,429				4,847,456
Transfers-out							
Fund transfers	132,435,182	100,000	30,480,780		123,067,631	54,982	286,138,575
Intra-Entity Expense			26,895		4,488,434		4,515,329
Total	132,435,182	100,000	30,507,675		127,556,065	54,982	290,653,904
Debt Service							
Bonds	6,119,758						6,119,758
Loans	262,108					557,517	819,625
Capital Leases		(71)					(71)
Total	6,381,866	(71)				557,517	6,939,311
Post Employment Benefits							
Other Post Employment Benefits			6,493				6,493
Employer Pension Expense			409,135				409,135
Total			415,629				415,629
Total Expenditures & Transfers-Out	$ 164,361,440	$ 6,258,482	$ 84,836,867	$ 2,220,974	$ 129,278,529	$ 23,714,448	$ 410,670,740
EXPENDITURES & TRANSFERS-OUT BY FUND							
General Fund	$ 1,709,621	$ 3,237,193	$ 12,699,951			$ 9,119,322	$ 26,766,087
State Special Revenue Fund	141,881,550	2,166,336	55,817,197	$ 2,112,974	$ 324,746	6,960,923	209,263,727
Federal Special Revenue Fund	518,517	854,952	12,490,276	108,000		7,634,203	21,605,948
Debt Service Fund	20,251,752						20,251,752
Enterprise Fund			502,044				502,044
Internal Service Fund			2,873,970				2,873,970
Private Purpose Trust Fund			453,429				453,429
Permanent Fund					128,953,783		128,953,783
Total Expenditures & Transfers-Out	164,361,440	6,258,482	84,836,867	2,220,974	129,278,529	23,714,448	410,670,740
Less: Nonbudgeted Expenditures & Transfers-Out	137,432,683	7,952	29,637,097	53	129,279,244	110,807	296,467,836
Prior Year Expenditures & Transfers-Out Adjustments	(137,884)	2,846	1,921,204	8,821	(716)	(87,973)	1,706,298
Actual Budgeted Expenditures & Transfers-Out	27,066,641	6,247,684	53,278,566	2,212,100	0	23,691,614	112,496,605
Budget Authority	38,566,127	6,617,381	67,257,851	2,665,593		38,786,100	153,893,051
Unspent Budget Authority	$ 11,499,486	$ 369,697	$ 13,979,285	$ 453,493	$ 0	$ 15,094,486	$ 41,396,446
UNSPENT BUDGET AUTHORITY BY FUND							
General Fund	$ 5,550	$ 369,697	$ 56,839			$ 52,806	$ 484,892
State Special Revenue Fund	4,724,584		3,345,522	$ 452,493		5,416,377	13,938,976
Federal Special Revenue Fund	6,769,351		10,106,248	1,000		9,625,302	26,501,902
Enterprise Fund			298,675				298,675
Internal Service Fund			172,001		$		172,001
Unspent Budget Authority	$ 11,499,486	$ 369,697	$ 13,979,285	$ 453,493	$ 0	$ 15,094,486	$ 41,396,446

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

Department of Natural Resources and Conservation
Notes to the Financial Schedules
For the Two Fiscal Years Ended June 30, 2020

1. Summary of Significant Accounting Policies

Basis of Accounting

The department uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental fund category (General, State Special Revenue, Federal Special Revenue, Debt Service, Capital Projects and Permanent). In applying the modified accrual basis, the department records:

- Revenues when it receives cash or when receipts are realizable, measurable, earned, and available to pay current period liabilities.
- Expenditures for valid obligations when the department incurs the related liability and it is measurable, with the exception of the cost of employees' annual and sick leave. State accounting policy requires the department to record the cost of employees' annual and sick leave when used or paid.

The department uses accrual basis accounting for its Proprietary (Enterprise and Internal Service) and Fiduciary (Private-Purpose Trust (fiscal year 2018-19 only) and Agency (fiscal year 2018-19 only) / Custodial (fiscal year 2019-20 only)) fund categories. Under the accrual basis, as defined by state accounting policy, the department records revenues in the accounting period when realizable, measurable, and earned, and records expenses in the period incurred when measurable.

Expenditures and expenses may include: entire budgeted service contracts even though the department receives the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

Basis of Presentation

The financial schedule format was adopted by the Legislative Audit Committee. The financial schedules are prepared from the transactions posted to the state's accounting system without adjustment.

The department uses the following funds:

Governmental Fund Category

- **General Fund** – to account for all financial resources except those required to be accounted for in another fund. The department uses general funds for a portion of the operation of the Director's Office, Conservation & Resource

Development Division, Water Resources Division, and Forestry Division. In addition, general funds are used for conservation district grants and administration, fire pre-suppression and forest practices.

- **State Special Revenue Fund** – to account for proceeds of specific revenue sources (other than private-purpose trusts or major capital projects) that are legally restricted to expenditures for specific state program purposes. Department State Special Revenue Funds include forestry operations, Water Pollution Control and Drinking Water State Revolving Fund (SRF) Programs, Renewable Resource Grant and Loan Program, Water Rights and Water Adjudication programs, fire suppression and trust lands administration.
- **Federal Special Revenue Fund** – to account for activities funded from federal revenue sources. Department Federal Special Revenue Funds include forest stewardship, fire operations and suppression efforts, floodplain mapping, and Water Pollution Control and Drinking Water SRF Programs. Both SRF programs are financed in part by federal funds.
- **Debt Service Fund** – to account for accumulated resources for the payment of general long-term debt principal and interest. The department uses Debt Service Funds to account for Renewable Resources, Coal Severance Tax (CST) and Water Pollution Control and Drinking Water SRF Programs bond payments.
- **Capital Projects Fund** – to account for financial resources used for the acquisition or construction of major capital facilities, other than those financed by proprietary funds or trust funds. The department uses this fund for 2019 Session House Bill 10 Information Technology project for the water rights system and 2005 Session House Bill 540 capital projects.
- **Permanent Fund** – to account for financial resources that are permanently restricted to the extent that only earnings, and not principal, may be used for purposes that support the department's programs. The department uses this fund for the Common School Trust, university and college trust, School for the Deaf and Blind Trust, Pine Hills School Trust, Veteran's Home Trust, Public Land Trust, Lands Acquired Trust (Potomac Land), and the Trust and Legacy Account.

Proprietary Fund Category

- **Internal Service Fund** – to account for the financing of goods or services provided by one department or agency to other departments or agencies of state government or to other governmental entities on a cost-reimbursement basis. The department Internal Service Fund contains the Forestry Division's Air Operations Program. The Air Operations Program maintains and operates aircraft to aid in fire suppression.
- **Enterprise Fund** – to account for operations (a) financed and operated in a manner similar to private business enterprises, where the Legislature intends that the department finance or recover costs primarily through user charges; (b) where the Legislature has decided that periodic determination of revenues

earned, expenses incurred or net income is appropriate; (c) where the activity is financed solely by a pledge of the net revenues from fees and charges of the activity; or (d) when laws or regulations require that the activities' cost of providing services, including capital costs, be recovered with fees and charges rather than with taxes or similar revenues. The department accounts for the State Seedling Nursery Program in this fund.

Fiduciary Fund Category

- **Private-Purpose Trust Fund** – to account for activity of any trust arrangement not properly reported in a pension fund or an investment trust fund where the principal and income benefit individuals, private organizations, or other governments. Department private-purpose trust fund was used in fiscal year 2018-19 to account for the cash bonds property held in trust and deposits payable collected as required in the fire hazard reduction agreement per 76-13-408, MCA. As of fiscal year 2019-20, the implementation of Governmental Accounting Standards Board (GASB) Statement No. 84, Fiduciary Activities, determined these activities were not considered fiduciary in nature and were therefore moved to governmental funds. As a result, the Private-Purpose Trust Fund has a zero fund equity balance at the end of fiscal year 2019-20.
- **Agency (fiscal year 2018-19 Only) / Custodial (fiscal year 2019-20 Only) Fund** – to account for resources held by the state in a custodial capacity. Agency/Custodial funds may be used on a limited basis for internal (to the State) clearing account activity but these must have a zero balance at fiscal year-end and therefore are not on the fiscal year 2019-20 schedules.

2. General Fund Equity Balance

The negative fund equity balance in the General Fund does not indicate overspent appropriation authority. The department has authority to pay obligations from the statewide General Fund within its appropriation limits. The department expends cash or other assets from the statewide fund when it pays General Fund obligations. The department's outstanding liabilities exceed the assets it has placed in the fund, resulting in negative ending General Fund equity balances for each of the fiscal years ended June 30, 2019 and June 30, 2020.

3. Federal Special Revenue Funds Equity Balance

The negative fund equity balance in the federal special revenue funds is due to fire expenditures that are to be reimbursed by federal agencies. However, revenue cannot be recorded since the reimbursements are not anticipated to be received within 60 days of the close of each fiscal year. An entry is recorded in the unavailable inflow of resources account instead of revenue. This entry creates the negative fund equity balance.

4. Direct Entries to Fund Equity

Direct entries to fund equity in the General, State Special Revenue, Federal Special Revenue Fund, Debt Service, and Capital Projects funds primarily include entries generated by SABHRS to reflect the flow of resources within individual funds shared by separate agencies.

Other direct entries to fund equity in the General Fund and State Special Revenue funds are due to cancellations of accrual balances at the completion of agreements.

Direct entry to fund equity in the Private Purpose Trust fund is due to the implementation of GASB Statement No. 84, Fiduciary Activities.

Direct entries to fund equity in the enterprise and internal service funds are due to mandated entries by the GASB in conjunction with the requirement to address accounting and financial reporting for pensions and other post-employment benefits (OPEB). The department recorded to fund equity in the enterprise fund approximately ($3,826) in fiscal year 2018-19 to reflect entries from fiscal year 2017-18 and $26,581 in fiscal year 2019-20 to reflect entries from fiscal year 2018-19. The department recorded to fund equity in the internal service fund approximately ($19,261) in fiscal year 2018-19 to reflect entries from fiscal year 2017-18 and $88,661 in fiscal year 2019-20 to reflect entries from fiscal year 2018-19.

5. Long-Term Debt

In prior fiscal years, the state of Montana issued General Obligation (GO) bonds for the Water Pollution Control and Drinking Water SRF Programs. The bond proceeds were used for Water Pollution Control and Drinking Water project loans. At June 30, 2020, the department had a total of $21,185,000 in GO bonds outstanding for these programs. The total GO bonds outstanding include a large bond issue in fiscal year 2014-15 of $24,365,000 in the Water Pollution Control SRF program.

In prior fiscal years, the state of Montana issued GO public and private bonds for the Renewable Resource Grant and Loan program. The bond proceeds were used for private loans for irrigation projects. At June 30, 2020, the department had a total of $3,216,794 of GO private bonds outstanding for this program and no GO public bonds outstanding.

In prior fiscal years, the department issued CST bonds for the Renewable Resource Grant and Loan program. The bond proceeds were used for public loans for irrigation, water, sewer and dam projects. At June 30, 2020, the department had a total of

$13,857,063 of CST bonds outstanding, $7,507,063 were purchased by the Montana Board of Investments and $6,350,000 were purchased by external banks.

The department has a loan from the U.S. Bureau of Reclamation to fund the Middle Creek Dam project. The unpaid loan principal and interest during construction balance as of June 30, 2020, was $1,854,375.

The Northern Cheyenne Tribe and the department entered into an agreement on July 1, 1994, in which the tribe agreed to loan the state up to $11,500,000 of federal funds appropriated as part of the Northern Cheyenne Indian Reserved Water Rights Settlement. The noninterest bearing loan was used to help finance the costs of the Tongue River Dam Project. The actual amount of the loan was $11,300,000. The outstanding loan balance at June 30, 2020, was $5,215,385. In March 2005, the department issued CST bond to the tribe for $9,851,282 as security for the loan. The bond, which is noninterest bearing, provides a means of repayment to the tribe in the event pledged revenues are insufficient for loan repayment.

6. Transfers-In

The Schedule of Total Revenues and Transfers-In contain the following activity in the transfers-in class:

- **State Special Revenue Fund** – This activity is comprised of:
  - ◊ the transfer of general funds to the Water Adjudication account per 85-2-280(2), MCA;
  - ◊ the transfer of funds from the Blackfeet Infrastructure account to the Blackfeet Mitigation account per the 2017 Session House Bill 287;
  - ◊ the transfer of general funds to the Sage Grouse Stewardship account per 15-1-122(5), MCA;
  - ◊ the transfer of Common School Permanent Trust Fund earnings to the Guarantee Account for distribution to school districts;
  - ◊ the transfer of trust earnings from permanent trust funds to earnings reserve;
  - ◊ the transfer of grant funds and state funds from department divisions and other state agencies;
  - ◊ the movement of the liabilities for Intercap loans from the Montana Board of Investments to the debt service funds;
  - ◊ the movement of loans receivable from other funds;
  - ◊ the transfer of general fund to the fire suppression fund per 76-13-150(6), MCA;
  - ◊ the transfer of liability that was created when the Board of Investments (BOI) purchased a DNRC bond;

- ◊ the transfer of recycled funds and state match in the Water Pollution Control and Drinking Water SRF Programs to make loans.
- ◊ the transfer of federal funds from the Department of Environmental Quality for the Water Pollution Control and Drinking Water SRF Programs to make loans;
- ◊ the transfer of funds from the trusts to administer state trust lands; and
- ◊ the transfer of funds from the GO Bond debt service fund in excess of the debt service requirement to the natural resources projects fund.

- **Federal Special Revenue Fund** – This activity is comprised of the transfer in of federal grant funds from other state agencies. In FY 2020, this included the receipt of Coronavirus Relief Funds to administer and award Business Adaptability grants to Montana businesses.
- **Debt Service Fund** – This activity is comprised of:
  - ◊ the movement of loans receivable from other funds;
  - ◊ the transfers from debt service reserve or other program funds; and
  - ◊ the transfers between debt services funds.
- **Internal Service Fund** – This activity represents the transfers from the general fund and fire protection assessments fund for base funding of the air operations.
- **Permanent Fund** – This activity is comprised of:
  - ◊ the distribution of interest & income and the allocation of the appreciation/ depreciation of the Trust Fund Investment Pool within the trust funds administered by the department.
  - ◊ The transfer of the unreserved balance in the Invasive Species Account at the Montana Dept. of Fish Wildlife & Parks to the Invasive Species Trust.

7. Transfers-Out

The Schedule of Total Expenditures and Transfers-Out contain the following activity in the transfers-out class:

- **Conservation /Resource Development Division** – This activity is comprised of:
  - ◊ transfers of natural resource projects fund for House Bill 6, Renewable Resource Grants, and House Bill 7, Reclamation and Development Grants, to other department division and state agencies;
  - ◊ The transfer of the earnings in the Invasive Species Trust to the Invasive Species Account at the Montana Dept. of Fish Wildlife & Parks.
  - ◊ SRF transfers associated with the movement of loans receivable, sweeps and interest earnings to other funds, and the reversal of transfers-in to loan forgiveness;
  - ◊ the movement of loans receivable to other funds;

- ◊ the transfer of liability that was created when the Board of Investments (BOI) purchased a DNRC bond;
- ◊ the transfer of funds from the GO Bond debt service fund in excess of the debt service requirement to the natural resources projects fund;
- ◊ the transfer of funds from CST Bonds debt service funds in excess of the debt service requirement to the Montana Department of Revenue; and
- ◊ the transfers between debt service funds.

- **Directors Office** – This activity is comprised of:
  - ◊ the transfer from the general fund to Governor's Office for the Tribal Flag Circle; and
  - ◊ The transfer from the general fund to the Water Resources Division.
- **Forestry/Trust Lands Division** – This activity is comprised of:
  - ◊ the transfers from the general fund and fire protection assessments fund for base funding of the air operations;
  - ◊ the transfer of state funds to department divisions and other state agencies; and
  - ◊ the transfer of funds from the fire suppression fund to:
    - the Office of the Commissioner of Higher Education per the 2017 Session House Bill 647;
    - the general fund per 2017 November Special Session Senate Bill 4 and Senate Bill 9;
- **Trust Funds** – This activity is comprised of:
  - ◊ the allocation of the appreciation/depreciation of the Trust Fund Investment Pool within the trust funds administered by the department;
  - ◊ the transfer of timber revenue in excess of 18 million board feet on Common School Trust Lands to the Montana Dept. of Commerce for school technology purposes;
  - ◊ the transfer of trust earnings from permanent trust funds to earnings reserve;
  - ◊ the transfer of funds from the trusts to administer state trust lands; and
  - ◊ the distribution of earnings to the trust permanent funds and the transfer of earnings to the trust beneficiaries, department divisions and other state agencies.
- **Water Resources Division** – This activity is comprised of:
  - ◊ the transfer of state funds to other state agencies; and
  - ◊ the transfer of funds from the Blackfeet Infrastructure account to the Blackfeet Mitigation account per the 2017 Session House Bill 287.

8. Fire Suppression Fund Transfers and Ending Fund Equity

The department receives transfer-in revenue from the general fund to the fire suppression fund per 76-13-150(6), MCA. In fiscal year 2018-19, no general fund transfer-in was done from the fiscal year 2017-18 reverted general funds per 76-13-150(10), MCA (2017), which temporarily stopped the transfer. In fiscal year 2019-20 the fire suppression fund could again receive the transfer-in and the department recorded revenue of $30.3 million based on the reverted general funds in fiscal year 2018-19.

In fiscal year 2018-19, the fund received the following transfers-in:

- $13.5 million per 2017 November Special Senate Bill 4 from the Montana Board of Investments 3% management rate on certain portfolios,
- $15 million per 2017 November Special Senate Bill 9 from the private correctional facility contract renegotiation account,
- $15 million per 2019 Session House Bill 3 from the private correctional facility contract renegotiation account, and
- $21.5 million per 2019 Session House Bill 3 from the general fund.

Also, in fiscal Year 2018-19, fire suppression fund Miscellaneous Revenue is overstated by $30 million. $15 million should have been Transfer-In Revenue and $15 million should have been Grant, Contracts & Donations Revenue. As a result, Transfer-In Revenue is understated by $15 million and Grants, Contracts & Donations Revenue is understated by $15 million. The revenue was corrected in fiscal year 2019-20.

Additionally, in fiscal year 2018-19, the department made the following transfers-out of the fund:

- $15 million per 2017 Special Session Senate Bill 9 to the general fund,
- $13.5 million per 2017 Special Session Senate Bill 4 to the general fund, and
- $100,000 per 2017 Session House Bill 647 to the Office of the Commissioner of Higher Education.

The ending fund equity in the fire suppression fund on June 30, 2020, was $54.6 million.

9. SRF Drinking Water Program Transfers-In and Transfers-Out

In fiscal years 2018-19 and 2019-20, the SRF Drinking Water program in the Conservation & Resource Development Division saw decreases in transfer-in revenues and transfer-out expenditures over fiscal year 2017-18. This is primarily due to a decrease

in loans in the program. In fiscal year 2017-18, the program processed $34 million in loan disbursements. In fiscal year 2018-19, the program processed $26 million in loan disbursements, a decrease of $8 million. In fiscal year 2019-20, the program processed $18.9 million in loan disbursements, a decrease of $15.1 million.

10. Unspent Budget Authority

The table below summarizes significant unspent budget authority by program. For fiscal year 2019-20, most amounts are related to biennial and continuing appropriations and the budget authority extends to fiscal year 2020-21, the second year of the 2021 biennium.

Unspent Budget Authority		
	FY 2018-19	FY 2019-20
Conservation & Resource Development Division		
Bond Proceeds (various funds)	$1,211,000	$1,793,000
House Bill 8 CST Bonds	$0	$81,642,000
TSEP Regional Water System	$0	$5,137,000
Local Infrastructure Account	$0	$5,323,000
Natural Resources Projects	$1,934,000	$8,980,000
SRF Federal Authority	$5,998,000	$8,908,000
DNRC Capital Projects Fund	$0	$19,500,000
Water Resources Division		
CSKT MOU*	$1,823,000	$1,659,000
DOJ Natural Resource Damage Program	$782,000	$3,021,000
State Projects Hydro Earnings	$1,957,000	$1,858,000
Water FEMA Grants	$9,467,000	$9,357,000
Forestry/Trust Lands Division		
Contract Timber Harvesting	$1,000,000	$883,000
Fire Suppression Fund	$903,000	$1,777,000
Federal Grant Funds	$10,106,000	$11,024,000

*CSKT MOU – Confederated Salish and Kootenai Tribes Memorandum of Understanding

11. Related Party Transaction

Per Title 85, Chapter 1, part 6, MCA, Renewable Resource Grant and Loan Program, the department is eligible to issue GO bonds for the purpose of making private sale loans. DNRC has applied and received "recycled loan funds" from the SRF program for the non-point source private loan program. The loans are GO private sale bonds. The balances for loans in repayment for FY 2019 and FY 2020 were $5,230,500 and $4,292,500, respectively. The loans have interest rates ranging from 2.8% to 4.3% and are repaid over 15 years.

DNRC is leasing an office building in Glasgow, Montana, from a current DNRC employee, effective June 1, 2020. This employee is not involved in any decision making in regards to the agency lease of the office building.

12. Land Banking

The Land Banking program sells land to the public, puts the proceeds in the Land Banking Trust Fund, and then, using the combined funds from multiple sales, purchases parcels which produce a higher level of income than the lands sold. This results in a greater income to the trust beneficiaries. In fiscal year 2018-19, approximately $7 million of state trust land was sold and $1.7 million was purchased. In fiscal year 2019-20, approximately $11 million of state trust land was sold and no land was purchased.

The ending fund equity in the Land Banking program on June 30, 2020, was $21.2 million.

13. Federal Revenues Increase

In fiscal years 2018-19 and 2019-20, the federal special revenue funds saw increases in revenues and expenditures over fiscal year 2017-18. This is primarily due to:

- the expending of additional federal grants from the Federal Emergency Management Agency (FEMA) in Water Resources Division for floodplain mapping of approximately $4.8 million in 2018-19 and $7.2 million in 2019-20 over 2017-18 amounts; and
- the increase in the receipt of federal reimbursable fire costs of approximately $1.4 million in 2018-19 and $11.9 million in 2019-20 over 2017-18 amounts.

14. Permanent Trust Funds

In fiscal years 2018-19 and 2019-20, the permanent trust funds saw increases in revenues and expenditures over fiscal year 2017-18. This is primarily due to the appreciation of the trust fund bond pool investment of approximately $32 million in 2018-19 and an additional $35.3 million in 2019-20. This increase is also reflected in the transfers-in and transfers-out accounts as the appreciation is allocated out to the individual trusts based on their proportionate share of the trust fund bond pool.

15. Hydro Power Site Lease-Revenue Under Protest

In fiscal year 2016-17, Avista, due to a dispute, invoked paragraph 4.7 of the Hydropower Site Lease between the DNRC and Avista. This allows Avista to make rental payments under protest into an escrow account. Avista established a joint escrow account with the State of Montana at U.S. Bank NA. As of June 30, 2020,

Avista deposited $19.4 million, which represents their 2017, 2018, 2019 & 2020 lease payments, into the account.

16. Coronavirus Relief Funds (CRF) Business Adaptability Grant Program

In fiscal year 2019-20, DNRC was tasked with assisting the Governor's Office by administering the review and award of Coronavirus Relief Funds Business Adaptability Grants. As of June 30, 2020, the program disbursed approximately $400 thousand in grants.

17. GASB 84, Fiduciary Activities, Implementation

In fiscal year 2019-20, the State of Montana implemented GASB Statement No. 84, Fiduciary Activities. This statement no longer allows cash bonds recorded as property held in trust and deposits payables to be recorded in Private Purpose Trust or Custodial (previously Agency) funds since the cash bonds are not considered fiduciary activity. Prior to the close of the 2019-20 fiscal year, DNRC moved the cash bonds to the funds the exchange transactions occur and only uses the Custodial funds as clearing accounts. DNRC ensures that the balance in the custodial accounts are $0 by the close of each fiscal year. Additionally, since the activity that was recorded in the Private Purpose Trust fund was moved to another fund, the fund had no fund equity at the end of the 2019-20 fiscal year and is inactive.

18. GNA Program & Revenue Recognition Error

The Good Neighbor Authority (GNA) program is a cooperative effort between the State of Montana and the USDA Forest Service (USFS) to carry out authorized forest, rangeland, and watershed restoration services on National Forest System (NFS) lands to keep the forests healthy and productive. During the 2019 Session, DNRC received One-Time-Only (OTO) funding from the Montana Legislature for the 2021 biennium to implement the GNA program. Revenue for the program is generated via the sale of timber on the NFS lands and deposited in federal special revenue funds. The DNRC will send the USFS the appraised value of the timber sold and keep the balance to administer more timber sales.

In fiscal year 2019-20, revenue received for GNA timber sales in the amount of $1.15 million was incorrectly recorded in deferred revenue. In future fiscal years, the revenue will be record in the year the revenue was realizable, measurable, available and earned.

19. Subsequent Events

- General Obligation (GO) Bond 2020J for the Water Pollution Control SRF Program was authorized by the Board of Examiners on August 26, 2020 for an amount not to exceed $27 million, but not issued. The bond proceeds will be used to refund the outstanding balance on the 2015C GO bonds of $19.3 million and to make new Water Pollution Control SRF loans with the balance by matching federal capitalization grant funds from the Environmental Protection Agency.
- GO Bond 2020E for the St. Mary's Project was issued on September 11, 2020, for $2.8 million.
- Non-Point Source Renewable Resource Bond 2020F was authorized by the Board of Examiners on August 26, 2020, in the amount of $1.5 million, but not issued.
- In August 2020, the reverted general fund transfer to the fire suppression fund in the amount of $46.68 million was significantly larger than normal.
- In fiscal year 2020-21, DNRC could incur expenditures of approximately $11 million in the administration and granting of Coronavirus Relief Funds Business Adaptability Grants.
- In August 2020, DNRC received $10,054,000 from the Montana Department of Fish, Wildlife & Parks in payment for the permanent recreation easement at Big Arm State Park. The funds were deposited in the Common School Trust permanent fund.

Report on Internal Control and Compliance

Angus Maciver, Legislative Auditor
Deborah F. Butler, Legal Counsel

Deputy Legislative Auditors:
Cindy Jorgenson
William Soller

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Schedules Performed in Accordance With *Government Auditing Standards*

The Legislative Audit Committee
of the Montana State Legislature:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Schedule of Changes in Fund Equity, Schedule of Total Revenues & Transfers-In, and Schedule of Total Expenditures & Transfers-Out for the fiscal year ended June 30, 2020, and the Schedule of Changes in Fund Equity & Property Held in Trust, Schedule of Total Revenues & Transfers-In, and Schedule of Total Expenditures & Transfers-Out for the fiscal year ended June 30, 2019, for the Department of Natural Resources and Conservation, and the related notes to the financial schedules, and have issued our report thereon dated October 16, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial schedules, we considered the department's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial schedules, but not for the purpose of expressing an opinion on the effectiveness of the department's internal control. Accordingly, we do not express an opinion on the effectiveness of the department's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described below, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement

of the entity's financial schedules will not be prevented or detected and corrected on a timely basis. We consider the deficiency described below to be a material weakness:

- As described in Recommendation #1 on page 5 the department does not have controls in place to segregate accounting duties related to the review and approval of all accounting transactions.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit the attention by those charged with governance. We consider the deficiency described below to be a significant deficiency:

- As described in Recommendation #2 on page 7 the department's internal control does not ensure all sensitive assets are tagged, tracked, and inventoried as required by state accounting policy.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the department's financial schedules are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination on financial schedule amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Department of Natural Resources and Conservation Response to Findings

The department's response to the findings identified in our audit are described on page C-1 of this report. The department's response was not subjected to the auditing procedures applied in the audit of the financial schedules and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the department's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the department's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

October 16, 2020

Department of Natural Resources and Conservation

Department Response

DEPARTMENT OF NATURAL RESOURCES
AND CONSERVATION

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November 19, 2020

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LEGISLATIVE AUDIT DIV.

Angus Maciver
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RE: Montana Department of Natural Resources & Conservation (DNRC) Written Response to the Legislative Audit Division Financial-Compliance Audit for the Two Fiscal Years Ended June 30, 2020

RECOMMENDATION #1

We recommend the Department of Natural Resources and Conservation:

A. Segregate accounting duties related to the approval and review of all accounting transactions, or

B. Develop other internal controls to identify and correct misstatements in cases where segregating accounting duties is not possible.

Concur. The department will implement immediately additional approval & review and internal controls to identify and correct misstatements.

RECOMMENDATION #2

We recommend the Department of Natural Resources and Conservation comply with state accounting policy by implementing internal controls over all sensitive assets to ensure all sensitive assets are tagged, tracked, and inventories as required by state accounting policy.

Concur. DNRC is participating, with SITSD, in the implementation of the ServiceNow solution for IT asset management. This is currently in development with an estimated completion of December 2021.

RECOMMENDATION #3

We recommend the Department of Natural Resources and Conservation implement controls to prevent theft or misuse of employee awards and ensure all employee awards are taxed in accordance with law.

Concur. DNRC will no longer utilize gift cards as an employee award option starting in 2021 and we have updated our Annual Awards Policy to reflect that.

Sincerely,

John E. Tubbs
Director